

**REPORT OF THE AUDIT OF THE  
MCCRACKEN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2015**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT OF THE MCCRACKEN COUNTY FISCAL COURT**

**June 30, 2015**

The Auditor of Public Accounts has completed the audit of the McCracken County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McCracken County Fiscal Court. In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to McCracken County's major federal program: Community Development Block Grant/State's Program CFDA #14.228.

#### **Financial Condition:**

The McCracken County Fiscal Court had total receipts of \$27,580,436 and disbursements of \$29,796,799 in fiscal year 2015. This resulted in a total ending fund balance of \$5,383,174, which is a decrease of \$2,216,363 from the prior year.

#### **Report Comments:**

- 2015-001 Material Weakness Over Cash Resulted In Unauthorized Cash Transfers
- 2015-002 Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances
- 2015-003 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets
- 2015-004 The McCracken County Jailer Failed To Implement Internal Controls Over The Service Organization Handling Inmate Funds
- 2015-005 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
- 2015-006 McCracken County's Failure To Comply With Its Own Policies And Procedures And State Statute Resulted In Significant Payroll Liabilities
- 2015-007 The Fiscal Court Failed To Implement Adequate Internal Controls Over Subrecipient Monitoring

#### **Deposits:**

The Fiscal Court deposits were insured and collateralized by bank securities.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Bob Leeper, McCracken County Judge/Executive  
Members of the McCracken County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McCracken County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the McCracken County Fiscal Court's financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described more fully in Note 1 of the financial statement, the financial statement is prepared by McCracken County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of McCracken County, Kentucky as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of McCracken County, Kentucky as of June 30, 2015, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of McCracken County, Kentucky. The budgetary comparison schedules and capital asset schedule, and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying budgetary comparison schedules, capital asset schedule, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statement as a whole.



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### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2016 on our consideration of McCracken County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCracken, County Kentucky's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2015-001 Material Weakness Over Cash Resulted In Unauthorized Cash Transfers
- 2015-002 Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances
- 2015-003 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets
- 2015-004 The McCracken County Jailer Failed To Implement Internal Controls Over The Service Organization Handling Inmate Funds
- 2015-005 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
- 2015-006 McCracken County's Failure To Comply With Its Own Policies And Procedures And State Statute Resulted In Significant Payroll Liabilities
- 2015-007 The Fiscal Court Failed To Implement Adequate Internal Controls Over Subrecipient Monitoring

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a stylized flourish at the end.

Mike Harmon  
Auditor of Public Accounts

February 18, 2016

MCCRACKEN COUNTY OFFICIALS

For The Year Ended June 30, 2015

**Fiscal Court Members:**

Bob Leeper	County Judge/Executive
Jerry Beyer	Commissioner
Bill Bartleman	Commissioner
Scott Wathen	Commissioner

**Other Elected Officials:**

Sam Clymer	County Attorney
Bill Adams	Jailer
Julie Griggs	County Clerk
Kim Channell	Circuit Court Clerk
Jon Hayden	Sheriff
Nancy Bock	Property Valuation Administrator
Dan Sims	Coroner

**Appointed Personnel:**

Doug Moore	Deputy Judge Executive
Angie Brown	County Treasurer
Randy Williams	Road Supervisor

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 10,679,819	\$	\$
In Lieu Tax Payments	960,669		
Licenses and Permits	397,058		
Intergovernmental	3,215,061	2,220,939	2,659,907
Charges for Services	52,879		129,472
Miscellaneous	724,866		335,096
Interest	13,300		
Total Receipts	<u>16,043,652</u>	<u>2,220,939</u>	<u>3,124,475</u>
<b>DISBURSEMENTS</b>			
General Government	4,882,405		
Protection to Persons and Property	864,505		4,533,403
General Health and Sanitation	459,142		
Social Services	149,786		
Recreation and Culture	228,557		
Roads		3,200,469	
Airports			
Bus Services	9,000		
Debt Service	841,152		
Capital Projects	342,065	315,181	
Administration	2,946,500	521,363	1,688,083
Total Disbursements	<u>10,723,112</u>	<u>4,037,013</u>	<u>6,221,486</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>5,320,540</u>	<u>(1,816,074)</u>	<u>(3,097,011)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds	419,838	1,816,074	3,097,011
Transfers To Other Funds	(8,164,324)		
Total Other Adjustments to Cash (Uses)	<u>(7,744,486)</u>	<u>1,816,074</u>	<u>3,097,011</u>
Net Change in Fund Balance	(2,423,946)		
Fund Balance - Beginning	5,679,241		
Fund Balance - Ending	<u>\$ 3,255,295</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 3,327,054	\$ 3,426	\$ 13,569
Less: Outstanding Checks	(71,759)	(3,426)	(13,569)
Fund Balance - Ending	<u>\$ 3,255,295</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement.

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>Budgeted Funds</b>					
<b>Local Government Economic Assistance Fund</b>	<b>State Grant Fund</b>	<b>Federal Grant Fund</b>	<b>Sheriff Fund</b>	<b>Juvenile Justice Fund</b>	<b>Transient Room Tax Fund</b>
\$	\$	\$	\$	\$	\$ 2,029,866
15,110	528,306	1,007,814	1,861,122		
					346
15,110	528,306	1,007,814	1,861,122		2,030,212
			2,685,590		
				74,729	
	82,254	985,000			1,336,287
					581,717
	114		1,441,647		
	82,368	985,000	4,127,237	74,729	1,918,004
15,110	445,938	22,814	(2,266,115)	(74,729)	112,208
			2,266,115	74,729	
			2,266,115	74,729	
15,110	445,938	22,814			112,208
225,286	127,501	541,217			283,064
\$ 240,396	\$ 573,439	\$ 564,031	\$ 0	\$ 0	\$ 395,272
\$ 240,396	\$ 573,439	\$ 564,031	\$ 2,615 (2,615)	\$ 4,469 (4,469)	\$ 395,272
\$ 240,396	\$ 573,439	\$ 564,031	\$ 0	\$ 0	\$ 395,272

The accompanying notes are an integral part of the financial statement.

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

	<b>Unbudgeted Funds</b>		
	<b>Public Properties Corporation Fund</b>	<b>Jail Commissary Fund</b>	<b>County Bond Debt Service Fund</b>
<b>RECEIPTS</b>			
Taxes	\$	\$	\$
In Lieu Tax Payments			
Licenses and Permits			
Intergovernmental	191,905		327,132
Charges for Services			
Miscellaneous		99,301	
Interest	1	144	
Total Receipts	<u>191,906</u>	<u>99,445</u>	<u>327,132</u>
<b>DISBURSEMENTS</b>			
General Government			
Protection to Persons and Property			
General Health and Sanitation			
Social Services			
Recreation and Culture		81,245	
Roads			
Airports			
Bus Services			
Debt Service	373,356		1,057,006
Capital Projects			
Administration	1,000		
Total Disbursements	<u>374,356</u>	<u>81,245</u>	<u>1,057,006</u>
Excess (Deficiency) of Receipts Over			
Disbursements Before Other			
Adjustments to Cash (Uses)	<u>(182,450)</u>	<u>18,200</u>	<u>(729,874)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds	180,521		729,874
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)	<u>180,521</u>	<u></u>	<u>729,874</u>
Net Change in Fund Balance	(1,929)	18,200	
Fund Balance - Beginning	<u>3,971</u>	<u>147,921</u>	<u></u>
Fund Balance - Ending	<u>\$ 2,042</u>	<u>\$ 166,121</u>	<u>\$ 0</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 2,042	\$ 166,121	\$
Less: Outstanding Checks			
Fund Balance - Ending	<u>\$ 2,042</u>	<u>\$ 166,121</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement.

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>Unbudgeted Funds</b>				
<b>Construction Projects Fund</b>	<b>Planning Commission Fund</b>	<b>Unclaimed Fund</b>	<b>Car Rental Tax Fund</b>	<b>Total Funds</b>
\$	\$	\$	\$ 130,130	\$ 12,839,815
				960,669
				397,058
				12,027,296
	120			182,471
				1,159,263
57		8	8	13,864
57	120	8	130,138	27,580,436
	243			7,568,238
				5,472,637
				459,142
				1,217,040
				1,646,089
				3,200,469
			115,000	115,000
				9,000
				2,853,231
				657,246
				6,598,707
	243		115,000	29,796,799
57	(123)	8	15,138	(2,216,363)
(419,438)	(400)			8,584,162
(419,438)	(400)			(8,584,162)
(419,381)	(523)	8	15,138	(2,216,363)
523,854	523	29,990	36,969	7,599,537
\$ 104,473	\$ 0	\$ 29,998	\$ 52,107	\$ 5,383,174
\$ 104,473	\$	\$ 29,998	\$ 52,107	\$ 5,479,012
				(95,838)
\$ 104,473	\$ 0	\$ 29,998	\$ 52,107	\$ 5,383,174

The accompanying notes are an integral part of the financial statement.

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**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of McCracken County includes all budgeted and unbudgeted funds under the control of the McCracken County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the Fiscal Court in the acquisition and financing of any public project which may be undertaken by the Fiscal Court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the Fiscal Court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The Fiscal Court reports the following budgeted funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal government.

State Grant Fund - The primary purpose of this fund is to account for the state grant receipts and state grant disbursements of the county.

Federal Grant Fund - The primary purpose of this fund is to account for federal grant receipts and federal grant disbursements of the county.

Sheriff Fund - The primary purpose of this fund is to account for the Sheriff's receipts and disbursements. The primary source of receipts for this fund is the Sheriff's excess fees.

Juvenile Justice Fund - The primary purpose of this fund is to account for housing expenses of the county's juvenile offenders. The primary source of receipts for this fund is transfers from the General Fund.

Transient Room Tax Fund - The primary purpose of this fund is to account for collection and distribution of transient room tax.

**Unbudgeted Funds**

The Fiscal Court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the Public Properties Corporation. The Fiscal Court had budgeted this fund, however, the State Local Finance Officer does not require it to be budgeted and under the regulatory basis, it will be shown as an unbudgeted fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

County Bond Debt Service Fund - The purpose of this fund is to account for debt service requirements of the county's general obligation funds. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

Construction Projects Fund - The purpose of this fund is to account for the financial resources to be used for the acquisition or construction of county or related facilities.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Unbudgeted Funds (Continued)**

Planning Commission Fund - The purpose of this fund is to account for fees charged to customers for plats, approvals, and waivers of subdivisions. Expenses of the fund consisted of payments for meals for the planning commission and work for correcting the zoning issues. This fund was closed during the fiscal year and is now included in the General Fund.

Unclaimed Fund - The purpose of this fund is to account for monies received by the County Attorney when a decedent's estate is settled and there are no survivors. Funds are held for one year and then remitted to the County's General Fund. The Fiscal Court had budgeted this fund, however, the State Local Finance Officer does not require it to be budgeted and under the regulatory basis, it will be shown as an unbudgeted fund.

Car Rental Tax Fund - The purpose of this fund is to account for receipts and disbursements of the County's rental car tax. This fund should have been budgeted by the Fiscal Court.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the Fiscal Court does not approve the expenses of these funds.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. McCracken County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting McCracken County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of McCracken County, Kentucky.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. McCracken County Elected Officials (Continued)**

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Constructio n Projects Fund	Planning Commission	Total Transfers In
General Fund		\$ 419,438	\$ 400	\$ 419,838
Road Fund	1,816,074			1,816,074
Jail Fund	3,097,011			3,097,011
Sheriff Fund	2,266,115			2,266,115
Juvenile Justice Fund	74,729			74,729
Public Properties Corporation Fund	180,521			180,521
County Bond Debt Service Fund	729,874			729,874
Total Transfers Out	<u>\$8,164,324</u>	<u>\$ 419,438</u>	<u>\$ 400</u>	<u>\$ 8,584,162</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Agency Trust Funds**

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The Fiscal Court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for inmates' monies that are housed at the McCracken County Jail. The balance in the Jail Inmate Fund as of June 30, 2015 was \$10,216.

**Note 5. Health Reimbursement Account/Flexible Spending Account**

The McCracken County Fiscal Court established a health reimbursement account on February 11, 2013 to provide employees an additional health benefit. The County has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing funds, determined by health insurance coverage, each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll. The account balance as of June 30, 2015 was \$87,202.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 6. Receivables**

**A. General Obligation Bonds, Series 2011 – Murray University Project**

On November 22, 2011, McCracken County issued \$9,980,000 in General Obligation Bonds, Series 2011 for the purpose of increasing the public higher education opportunities for residents of the Greater Paducah region. On May 31, 2011, a mutual covenant was formed between McCracken County (County), the City of Paducah (Paducah), Murray State University (MSU), and the Greater Paducah Economic Development Council (GPEDC). The County, City, and GPEDC are to provide a combined \$500,000 per year for twenty years to service the debt of the bonds. It is the responsibility of MSU to make a renewable lease payment to the County for the difference in the County and City \$500,000 a year contribution, as they may allocate towards the debt service, projected payment to be no more the \$290,000 a year. As of June 30, 2015, the debt service requirements have been met.

**B. Greater Paducah Economic Development Council**

On September 18, 2007, the McCracken County Fiscal Court (County) and the City of Paducah (Paducah) entered into a financing agreement with the Greater Paducah Economic Development Council (GPEDC) for the acquisition of property. As part of the agreement, the GPEDC executed and delivered to the County an interest free promissory note in the amount of \$600,000 for one half of the financing. On December 19, 2008, the County agreed to an additional note of \$311,375 for the GPEDC to purchase property. In December of 2013, the County forgave \$500,000 of the \$911,375 loaned to the GPEDC. The entire principal amount of the note for \$411,375 has been extended to June 30, 2016.

**Note 7. Long-term Debt**

**A. First Mortgage Revenue Refunding Bonds Series 2013**

On December 17, 2013, the County sold McCracken County, Kentucky Public Properties Corporation First Mortgage Revenue Refunding Bonds, Series 2013, (Courthouse Project) through the McCracken County, Kentucky Public Properties Corporation. The Bonds totaled \$3,165,000, and the proceeds were used for the purposes of, (i) refunding all of the outstanding Series 2004 bonds issued by the McCracken County Public Properties Corporation and (ii) paying the cost of issuance on the bonds, which are dated December 17, 2013, have interest rates of 1% to 3.65% and mature beginning in June 2014 through June 2027. As of June 30, 2015, outstanding bond principal was \$2,850,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 450,000	\$ 54,531
2017	455,000	50,006
2018	195,000	46,610
2019	200,000	43,989
2020	205,000	40,439
2021-2025	1,085,000	123,376
2026-2027	260,000	5,178
Totals	<u>\$ 2,850,000</u>	<u>\$ 364,129</u>

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**B. General Obligation Bonds, Series 2011 (MSU Project)**

On November 22, 2011, the County sold McCracken County, Kentucky General Obligation Bonds, (Murray State University Project), Series 2011 (the Bonds). The Bonds originally totaled \$9,980,000, and the proceeds will be used for the purposes of (i) constructing an education building and associated streets, parking lots, utilities and infrastructure, and (ii) paying the costs of issuance of the Bonds, which are dated November 22, 2011, have interest rates of 1.00% to 3.50% and mature beginning in December 2012 through December 2031. A mutual covenant was formed by McCracken County (County), the City of Paducah (Paducah), Murray State University (MSU), and the Greater Paducah Economic Development Council (GPEDC). See Note 6A for receivable. The balance on these bonds as of June 30, 2015 was \$8,735,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 425,000	\$ 227,375
2017	435,000	221,456
2018	440,000	214,344
2019	445,000	206,044
2020	455,000	197,044
2021-2025	2,450,000	818,094
2026-2030	2,820,000	447,509
2031-2032	1,265,000	44,325
Totals	<u>\$ 8,735,000</u>	<u>\$ 2,376,191</u>

**C. General Obligation Bonds, Series 2013A (TeleTech Project)**

On June 17, 2013, the County sold McCracken County, Kentucky General Obligation Bonds, (TeleTech Project), Series 2013A (the Bonds). The Bonds originally totaled \$1,415,000, and the proceeds will be used for the purposes of (i) financing the acquisition, construction, installation, and equipping of an approximately 30,000 square foot building, which will be subleased to TeleTech Services Corporation and (ii) paying the costs of issuance of the Bonds, which are dated June 17, 2013, have interest rates of 1.00% to 5.00% and mature beginning in December, 2013 through December, 2032. The balance on these bonds as of June 30, 2015 was \$1,305,000.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**C. General Obligation Bonds, Series 2013A (TeleTech Project) (Continued)**

Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 55,000	\$ 51,280
2017	55,000	50,510
2018	55,000	49,438
2019	55,000	48,062
2020	60,000	46,625
2021-2025	325,000	202,625
2026-2030	400,000	127,150
2031-2033	300,000	23,000
Totals	<u>\$ 1,305,000</u>	<u>\$ 598,690</u>

**D. General Obligation Bonds, Series 2013B (Whitehall/MAACO Project)**

On September 10, 2013,, the County sold McCracken County, Kentucky General Obligation Bonds, (Whitehall/MAACO Project), Series 2013B (the Bonds). The Bonds originally totaled \$3,015,000 and the proceeds will be used for the purposes of (i) financing improvements to an industrial/distribution facility located within the County (the “MAACO” Project) to be leased to a Kentucky subsidiary of MAACO Organiques Incorporated, a Canadian corporation, (ii) financing equipment for the use by SRS Industries, LLC d/b/a Whitehall Industries, a Michigan limited liability company, at an industrial/distribution facility located within the County to be leased by such company (the “Whitehall Project,” and together with the MAACO Project, the “Project”), and (iii) paying the costs of issuing the Bonds. The Bonds have interest rates of 3.00% to 5.00% and mature beginning in March, 2014 through September, 2033. The County received a good faith deposit of \$60,300, in September 2013 along with the remainder of the funds. The balance on these bonds as of June 30, 2015 was \$2,820,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 200,000	\$ 96,900
2017	210,000	90,750
2018	215,000	84,375
2019	220,000	77,850
2020	230,000	71,100
2021-2025	1,040,000	249,600
2026-2030	355,000	133,875
2031-2034	350,000	36,250
Totals	<u>\$ 2,820,000</u>	<u>\$ 840,700</u>



**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**E. KaCOLT – Convention Center Renovation**

On December 20, 2010, the Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$4,965,000 at a 4.25% effective interest rate. The financing obligation is for the purpose of refinancing the renovation of the Julian Carroll Convention Center. The maturity date of the obligation is January 1, 2029. The balance on the lease as of June 30, 2015 was \$3,952,500. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 201,250	\$ 169,488
2017	229,167	175,400
2018	239,167	165,088
2019	249,166	154,325
2020	259,167	143,113
2021-2025	1,482,083	529,323
2026-2029	1,292,500	154,279
Totals	<u>\$ 3,952,500</u>	<u>\$ 1,491,016</u>

**F. KaCOLT – Jail and Sheriff's Office Expansion**

On December 20, 2010, the Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$4,145,000 at a 4.25% effective interest rate. The financing obligation is for the purpose of refinancing the expansion of the jail and sheriff's office. The maturity date of the obligation is January 1, 2026. The balance on the lease as of June 30, 2015 was \$3,177,500. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 221,667	\$ 132,767
2017	254,167	134,381
2018	264,166	122,944
2019	276,250	111,057
2020	289,167	98,625
2021-2025	1,656,250	285,565
2026	215,833	10,252
Totals	<u>\$ 3,177,500</u>	<u>\$ 895,591</u>

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**G. Notes Payable**

**1. Convention Center and Four Rivers Centers – City of Paducah**

On August 19, 2010, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$3,582,500. The note was authorized for the purpose of paying the County's fifty percent portion of the refinancing costs related to the original acquisition, construction, installation and equipping of the expansion to the Julian Carroll Convention Center and the construction of the Four Rivers Center for the Performing Arts (collectively, the Project) and paying the County's fifty percent portion of the costs of issuance by the City of Paducah (the City) of its General Obligation Refunding Bonds, Series 2010 (the City Bonds) being issued to refinance the costs of the Project. The note has interest rates of 1.0% to 3.25% and interest payments are to be made semi-annually beginning December 1, 2010. Principal payments are to be made annually on June 1 with final payment due June 1, 2026. The balance on the note as of June 30, 2015 was \$2,692,500. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 215,000	\$ 76,659
2017	220,000	72,358
2018	225,000	67,409
2019	227,500	61,784
2020	235,000	55,869
2021-2025	1,287,500	168,763
2026	282,500	9,181
Totals	<u>\$ 2,692,500</u>	<u>\$ 512,023</u>

**2. Speculative Building – City of Paducah**

On August 23, 2011, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$1,955,000. The note was authorized for the purpose of refinancing the May 1, 2004 note payable to the City of Paducah, Kentucky (City). In August 2011, the City issued General Obligation Taxable Refunding Bonds of \$3,910,000 to advance refund General Obligation Public Project Bonds, Series 2004 issued for the purpose of the acquisition, construction and installation of an approximately 100,000 square foot building to be leased by the City and County to the Paducah McCracken Industrial Development Authority. On June 1, 2004, the City of Paducah (City) and County entered into a lease agreement with the Paducah McCracken County Industrial Development Authority. On June 23, 2014, the Paducah McCracken County Industrial Development Authority entered into an agreement with Genova Products, Inc. Genova shall be responsible for the payment of the monthly rent installments for the remainder of the term of the lease. The note has an interest rate of 3.68% and interest payments are to be made semiannually beginning December 1, 2011. Principal payments are to be made annually on June 1 with the final payment due on June 1, 2024. The balance on the note as of June 30, 2015 was \$1,410,000.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**G. Notes Payable (Continued)**

**2. Speculative Building – City of Paducah (Continued)**

Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 145,000	\$ 51,888
2017	150,000	46,552
2018	155,000	41,032
2019	160,000	35,328
2020	167,500	29,440
2021-2024	632,500	53,912
Totals	<u>\$ 1,410,000</u>	<u>\$ 258,152</u>

**3. Gradall Excavator**

On June 22, 2015, the Fiscal Court committed to purchasing a Gradall Excavator from Southeastern Equipment for the price of \$299,650 by making a down payment of \$40,524. On July 1, 2015, the Fiscal Court signed a promissory note with Independence Bank for the remaining balance of \$259,126 at a 2.6% effective interest rate. The maturity date of the note is December 1, 2017. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 86,375	\$ 3,064
2017	86,376	4,504
2018	86,375	2,246
Totals	<u>\$ 259,126</u>	<u>\$ 9,814</u>

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**H. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions *	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 3,165,000		\$ 315,000	\$ 2,850,000	\$ 450,000
General Obligation Bonds	13,530,000		670,000	12,860,000	680,000
Financing Obligations	7,570,000		440,000	7,130,000	422,917
Notes Payable	4,452,500	259,126	350,000	4,361,626	446,375
<b>Total Long-term Debt</b>	<b>\$ 25,552,500</b>	<b>\$ 259,126</b>	<b>\$ 1,460,000</b>	<b>\$24,351,626</b>	<b>\$ 1,549,292</b>

\* Proceeds for the additional Note Payable were not received until June 1, 2015, therefore, it will not be reflected on the Financial Statement as Other Adjustment To Cash.

**Note 8. Contingencies**

The County is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant; in the aggregate, they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

**Note 9. Employee Retirement System**

**A. Plan Description**

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible regular full-time members employed in non-hazardous and hazardous duty positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 9. Employee Retirement System (Continued)**

**A. Plan Description (Continued)**

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$2,213,950, FY 2014 was \$2,147,615, and FY 2015 was \$2,022,995.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 9. Employee Retirement System (Continued)**

**A. Plan Description (Continued)**

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**B. Net Pension Liability**

As promulgated by GASB Statements No. 67 and 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The net pension liability for employers participating in CERS is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, KRS has determined that McCracken County's proportionate share of the net pension liability is \$5,329,000 for non-hazardous and \$9,336,000 for hazardous for a total of \$14,665,000 as of June 30, 2015. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.

**Note 10. Deferred Compensation**

On November 9, 1982, the McCracken County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 11. Insurance**

For the fiscal year ended June 30, 2015, McCracken County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 12. Landfill Closure and Post-Closure Costs**

The County landfill closed to the public on June 30, 1995. The County must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring at the site for thirty years after closure. The 30-year period will begin upon approval from the Commonwealth of Kentucky regarding the environmental condition of the landfill site. As of June 30, 2015, the final approval of the closure had not yet been granted. Closure costs for FYE June 30, 2015 were \$89,724. In June 2015, the City of Paducah reimbursed the County \$52,923 for its share of landfill expenses.

Estimated post-closure care costs total \$4,125,000 or \$125,000 per year plus 10 percent for inflation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

McCracken County prepares required financial statements on the regulatory basis of accounting accordance with the laws of Kentucky, therefore no liability has been recognized for the closure or post-closure care costs. State and federal laws and regulations require for the Fiscal Court to provide financial assurance that landfill closure and post closure care costs are properly funded. In order to meet financial assurance requirements, the Fiscal Court entered into an inter-local agreement with the City of Paducah, Kentucky to share equally the post closure costs. The City of Paducah, Kentucky will reimburse County annually for its share of closure costs incurred during the fiscal year.

**Note 13. Prior Period Adjustments**

Ending Cash Balance Prior Year	\$ 7,599,090
Adjustments:	
Prior Year Voided Checks -General Fund	<u>447</u>
Beginning Fund Balance - Restated	<u>\$ 7,599,537</u>

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**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**



**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 10,271,498	\$ 10,271,498	\$ 10,679,819	\$ 408,321
In Lieu Tax Payments	1,075,000	1,075,000	960,669	(114,331)
Licenses and Permits	353,230	353,230	397,058	43,828
Intergovernmental	2,993,500	2,993,500	3,215,061	221,561
Charges for Services	39,500	39,500	52,879	13,379
Miscellaneous	571,200	571,200	724,866	153,666
Interest	22,000	22,000	13,300	(8,700)
Total Receipts	15,325,928	15,325,928	16,043,652	717,724
<b>DISBURSEMENTS</b>				
General Government	4,804,062	5,020,228	4,882,405	137,823
Protection to Persons and Property	979,304	973,759	864,505	109,254
General Health and Sanitation	466,469	496,988	459,142	37,846
Social Services	155,000	155,000	149,786	5,214
Recreation and Culture	259,118	273,280	228,557	44,723
Bus Services	9,000	9,000	9,000	
Debt Service	1,239,657	1,845,337	841,152	1,004,185
Capital Projects		342,065	342,065	
Administration	3,111,073	2,656,011	2,946,500	(290,489)
Total Disbursements	11,023,683	11,771,668	10,723,112	1,048,556
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	4,302,245	3,554,260	5,320,540	1,766,280
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			419,838	419,838
Transfers To Other Funds	(7,202,245)	(7,202,245)	(8,164,324)	(962,079)
Total Other Adjustments to Cash (Uses)	(7,202,245)	(7,202,245)	(7,744,486)	(542,241)
Net Change in Fund Balance	(2,900,000)	(3,647,985)	(2,423,946)	1,224,039
Fund Balance Beginning	2,900,000	4,900,000	5,679,241	779,241
Fund Balance - Ending	\$ 0	\$ 1,252,015	\$ 3,255,295	\$ 2,003,280

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>ROAD FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 6,886,825	\$ 6,886,825	\$ 2,220,939	\$ (4,665,886)
Miscellaneous	1,000	1,000		(1,000)
Total Receipts	6,887,825	6,887,825	2,220,939	(4,666,886)
<b>DISBURSEMENTS</b>				
Roads	2,108,950	3,357,877	3,200,469	157,408
Capital Projects	5,096,000	5,096,000	315,181	4,780,819
Administration	543,402	543,402	521,363	22,039
Total Disbursements	7,748,352	8,997,279	4,037,013	4,960,266
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(860,527)	(2,109,454)	(1,816,074)	293,380
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	860,527	860,527	1,816,074	955,547
Total Other Adjustments to Cash (Uses)	860,527	860,527	1,816,074	955,547
Net Change in Fund Balance		(1,248,927)		1,248,927
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ (1,248,927)	\$ 0	\$ 1,248,927

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,535,000	\$ 2,535,000	\$ 2,659,907	\$ 124,907
Charges for Services	182,000	182,000	129,472	(52,528)
Miscellaneous	267,000	267,000	335,096	68,096
Total Receipts	2,984,000	2,984,000	3,124,475	140,475
DISBURSEMENTS				
Protection to Persons and Property	4,704,085	4,704,085	4,533,403	170,682
Administration	1,751,619	1,751,619	1,688,083	63,536
Total Disburesments	6,455,704	6,455,704	6,221,486	234,218
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(3,471,704)	(3,471,704)	(3,097,011)	374,693
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	3,471,704	3,471,704	3,097,011	(374,693)
Total Other Adjustments to Cash (Uses)	3,471,704	3,471,704	3,097,011	(374,693)
Net Change in Fund Balance				
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 5,000	\$ 5,000	\$ 15,110	\$ 10,110
Total Receipts	5,000	5,000	15,110	10,110
<b>DISBURSEMENTS</b>				
Social Services	6,000	6,000		6,000
Total Disbursements	6,000	6,000		6,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,000)	(1,000)	15,110	16,110
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	1,000	1,000		(1,000)
Total Other Adjustments to Cash (Uses)	1,000	1,000		(1,000)
Net Change in Fund Balance			15,110	15,110
Fund Balance Beginning			225,286	225,286
Fund Balance - Ending	\$ 0	\$ 0	\$ 240,396	\$ 240,396

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>STATE GRANT FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 528,306	\$ 278,306
Total Receipts	250,000	250,000	528,306	278,306
<b>DISBURSEMENTS</b>				
Social Services	250,000	249,886	82,254	167,632
Administration		114	114	
Total Disburesments	250,000	250,000	82,368	167,632
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			445,938	445,938
Net Change in Fund Balance			445,938	445,938
Fund Balance Beginning			127,501	127,501
Fund Balance - Ending	\$ 0	\$ 0	\$ 573,439	\$ 573,439

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>FEDERAL GRANT FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 300,000	\$ 1,300,000	\$ 1,007,814	\$ (292,186)
Total Receipts	300,000	1,300,000	1,007,814	(292,186)
<b>DISBURSEMENTS</b>				
Social Services	300,000	1,300,000	985,000	315,000
Total Disburesments	300,000	1,300,000	985,000	315,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			22,814	22,814
Net Change in Fund Balance			22,814	22,814
Fund Balance Beginning			541,217	541,217
Fund Balance - Ending	\$ 0	\$ 0	\$ 564,031	\$ 564,031



**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>SHERIFF FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,775,000	\$ 1,775,000	\$ 1,861,122	\$ 86,122
Total Receipts	1,775,000	1,775,000	1,861,122	86,122
<b>DISBURSEMENTS</b>				
General Government	2,751,376	2,754,014	2,685,590	68,424
Administration	1,461,687	1,462,137	1,441,647	20,490
Total Disbursements	4,213,063	4,216,151	4,127,237	88,914
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,438,063)	(2,441,151)	(2,266,115)	175,036
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	2,438,063	2,438,063	2,266,115	(171,948)
Total Other Adjustments to Cash (Uses)	2,438,063	2,438,063	2,266,115	(171,948)
Net Change in Fund Balance		(3,088)		3,088
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ (3,088)	\$ 0	\$ 3,088

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>JUVENILE JUSTICE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	\$ 90,000	\$ 90,000	\$ 74,729	\$ 15,271
Administration	10,500	10,500		10,500
Total Receipts	100,500	100,500	74,729	25,771
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,500)	(100,500)	(74,729)	25,771
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	100,500	100,500	74,729	(25,771)
Total Other Adjustments to Cash (Uses)	100,500	100,500	74,729	(25,771)
Net Change in Fund Balance				
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

**TRANSIENT ROOM TAX FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,832,000	\$ 1,832,000	\$ 2,029,866	\$ 197,866
Interest	500	500	346	(154)
Total Receipts	1,832,500	1,832,500	2,030,212	197,712
<b>DISBURSEMENTS</b>				
Recreation and Culture	1,832,500	1,377,823	1,336,287	41,536
Debt Service		581,718	581,717	1
Total Disbursements	1,832,500	1,959,541	1,918,004	41,537
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(127,041)	112,208	239,249
Net Change in Fund Balance		(127,041)	112,208	239,249
Fund Balance Beginning			283,064	283,064
Fund Balance - Ending	\$ 0	\$ (127,041)	\$ 395,272	\$ 522,313

**MCCRACKEN COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2015**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Excess of Disbursements Over Appropriations**

Administration disbursements in the General Fund exceeded budgeted appropriations by \$290,489 due to the County erroneously excluding a \$300,000 line-item appropriation from its original budget.

**MCCRACKEN COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**



**MCCRACKEN COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

The Fiscal Court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,767,320			\$ 1,767,320
Construction In Progress		315,000		315,000
Buildings	38,314,380	251,547		38,565,927
Vehicles and Equipment	7,297,906	952,340	59,261	8,190,985
Infrastructure	87,299,567	1,263,252		88,562,819
	<u>87,299,567</u>	<u>1,263,252</u>	<u></u>	<u>88,562,819</u>
Total Capital Assets	<u>\$ 134,679,173</u>	<u>\$ 2,782,139</u>	<u>\$ 59,261</u>	<u>\$ 137,402,051</u>

**MCCRACKEN COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2015**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	20
Buildings and Building Improvements	\$ 20,000	50
Machinery and Equipment	\$ 10,000	10
Vehicles	\$ 10,000	5
Office Equipment	\$ 10,000	5
Infrastructure	\$ 20,000	12-50



**MCCRACKEN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2015**



**MCCRACKEN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2015**

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures	Provided to Subrecipient
<b><u>U. S Department of Housing and Urban Development</u></b>				
<b><i>Passed-Through State Department for Local Government:</i></b>				
14.23	Community Development Block Grants/State's Program	PON211214000007961 *	\$ 985,000	\$ 965,000
<b>Total U.S. Department of Housing and Urban Development</b>			<u>985,000</u>	<u>965,000</u>
<b><u>U.S. Department of Homeland Security</u></b>				
<b><i>Passed-Through State Department of Military Affairs:</i></b>				
97.04	Hazard Mitigation Grant Program	PNO209513000000093	\$ 26,742	\$
97.04	Emergency Management Performance Grants	PO20951400003351	37,058	
97.07	Homeland Security Grant Program	PO209414000027661	<u>16,152</u>	
<b>Total U.S. Department of Homeland Security</b>			<u>79,952</u>	
Total Expenditures of Federal Awards			<u>\$ 1,064,952</u>	<u>\$ 965,000</u>

\*Tested as Major Program or Cluster

**MCCRACKEN COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2015**

Note 1- The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McCracken County, Kentucky and is presented on a regulatory basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations*

Note 2- Determination of Major Program

The Type A program for the Fiscal Court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2015 or were deemed high risk. There was one Type A program. The major program tested was: CFDA #14.228 Community Development Block Grant/State's Program.

Note 3- Subrecipient

McCracken County was a pass through agency and distributed \$965,000 of Community Development Block Grant/State's Program funds to Greater Paducah Economic Development.

Note 4- Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2015.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Bob Leeper, McCracken County Judge/Executive  
Members of the McCracken County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCracken County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the McCracken County Fiscal Court's financial statement and have issued our report thereon dated February 18, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the McCracken County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McCracken County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, 2015-003, 2015-004, and 2015-007 to be material weaknesses.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-005 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the McCracken County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-005, 2015-006, and 2015-007.

**County Judge/Executive's and Jailer's Responses to Findings**

The McCracken County Judge/Executive's and Jailer's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County Judge/Executive's and Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H.", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

February 18, 2016



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Bob Leeper, McCracken County Judge/Executive  
Members of the McCracken County Fiscal Court

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133

Independent Auditor's Report

**Report on Compliance for Each Major Federal Program**

We have audited McCracken County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the McCracken County Fiscal Court's major federal programs for the year ended June 30, 2015. The McCracken County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the McCracken County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the McCracken County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the McCracken County Fiscal Court's compliance with those requirements.

**Opinion on Each Major Federal Program**

In our opinion, the McCracken County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-007. Our opinion on each major federal program is not modified with respect to these matters.

The McCracken County Fiscal Court's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The McCracken County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of the McCracken County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the McCracken County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Fiscal Court's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-007 that we consider to be a material weakness.

The McCracken County Fiscal Court's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The McCracken County Fiscal Court's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

**Report on Internal Control over Compliance (Continued)**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

February 18, 2016

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**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2015**





**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2015**

**Section I: Summary of Auditor's Results**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

***Federal Awards***

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <u>U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)</u> ?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

14.228 Community Development Block Grant/State's Program
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Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit**

*Financial Statement Findings*

2015-001 Material Weakness Over Cash Resulted In Unauthorized Cash Transfers

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The McCracken County Fiscal Court has material weaknesses in internal controls over cash that resulted in unauthorized cash transfers. Of the twenty-nine cash transfers tested, \$7,306,308 was transferred between the operating funds. The Fiscal Court only approved the transfer of \$5,114,869, resulting in \$2,191,438 of unauthorized cash transfers.

Good internal controls over cash should include documented approval of cash transfers by the Fiscal Court prior to transferring any county funds. Without this approval, county funds could be misappropriated or misused. While no funds were determined to be missing, the lack of proper Fiscal Court oversight did result in the unauthorized transfers and therefore could have resulted in funds being used for purposes other than what they were intended.

We recommend the Fiscal Court require all cash transfers be approved by the Fiscal Court prior to a transfer being made. We also recommend such approvals be adequately documented in the Fiscal Court minutes.

*County Judge/Executive Bob Leeper's Response: The audit comment concerning material weakness over cash transfers was addressed after being brought [sic] the county's attention during out [sic] 13/14 FY audit, however, due to the timing of the 13/14 FY audit completion we were not able to address the issues until the end of the 14/15 FY audit.*

2015-002 Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances

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Material weaknesses exist over the reporting of liabilities and debt of McCracken County. The June 30, 2015 outstanding debt balances reported on the 4<sup>th</sup> Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the county failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

*County Judge/Executive Bob Leeper's Response: Corrective action taken.*

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

***Financial Statement Findings (Continued)***

**2015-003 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets**

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Material weaknesses exist over the reporting of capital assets of McCracken County. The county's schedule of capital assets for the period of audit failed to recognize all asset purchases that occurred throughout the year. Furthermore, some of these asset additions did not appear to be added to the county's insurance policy.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, those assets are left vulnerable to misappropriation or misstatement.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired, as should the county's insurance coverage. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

*County Judge/Executive Bob Leeper's Response: Recent software update has allowed for proper reporting of capital assets.*

**2015-004 The McCracken County Jailer Failed To Implement Internal Controls Over The Service Organization Handling Inmate Funds**

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For the fiscal year ended June 30, 2015, the McCracken County Jail contracted with a service organization, to handle the operations of the jail commissary as well as inmates' funds. While such a contract is allowable by statute, the Jailer is still considered the custodial agent for the inmates' funds, and therefore, is responsible for internal controls over them. However, because of the reliance placed on the service organization, the Jailer exercised no internal controls over the inmates' funds, leaving them susceptible to potential errors and misappropriation.

We recommend the Jailer establish internal controls over the activities of the service organization in order to protect the McCracken County Jail from loss or liability related to inmates' funds. At a minimum, these internal controls should include the following:

- Requiring the service organization to provide documentation of daily batched receipts, daily checkout sheets, and daily deposits.
- Requiring the service organization to provide supporting documentation for all amounts disbursed from the inmates' funds.
- Monthly reconciliations of the inmates' account balances to the bank balance to determine if inmates' funds maintained in this account are properly accounted for as required by statute.
- Having a knowledgeable jail employee review the work of the service organization handling the inmates' monies.

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

*Financial Statement Findings (Continued)*

2015-004 The McCracken County Jailer Failed To Implement Internal Controls Over The Service Organization Handling Inmate Funds (Continued)

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By implementing these internal control procedures, the Jailer can strengthen the controls over jail inmate funds and reduce the risks of errors and misappropriation associated with them.

*County Jailer Bill Adams Response: All recommendations have been resolved and are in place now.*

2015-005 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer

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The following findings were noted with the County's decentralized receipts:

- Fees for building and electrical permits were turned over to the County Treasurer once a month.
- Fees collected at Carson Park were turned over to the County Treasurer once a month.
- Fees collected at the McCracken County Jail were turned over to the County Treasurer once a week.

KRS 68.210 states "The administration of the county uniform budget system shall be under the supervision of the state local finance officer..." Minimum accounting requirements pursuant to KRS 68.210 include daily deposits intact into a federally insured banking institution. Because the county chose to decentralize receipts and these receipts were not turned over to the County Treasurer daily, the County was not in compliance with KRS 68.210. Furthermore, not depositing receipts regularly leaves them more susceptible to misappropriation and theft.

We recommend the Fiscal Court comply with KRS 68.210 by requiring all funds collected in locations other than the Treasurer's office to be deposited on a daily basis.

*County Judge/Executive Bob Leeper's Response: The County Judge/Treasurer have instructed all staff collecting fees to turn said fees over for deposit to County Treasurer on a daily basis.*

*County Jailer Bill Adams Response: All fees collected at the jail will be turned in daily, recorded and signed for.*

2015-006 McCracken County's Failure To Comply With Its Own Policies And Procedures And State Statute Resulted In Significant Payroll Liabilities

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On May 19, 2014, the former McCracken County Judge Executive signed an executive order permitting his former office manager to accrue vacation days beyond the forty-day carryover limit established by the county's policies and procedures ordinance until December 31, 2014. This order also permitted his former office manager to carryover compensatory time beyond the zero-carryover amount also established by the county's policies and procedures ordinance until December 31, 2014.

On February 26, 2015, the former office manager was paid \$32,873 for 170 vacation days and \$11,357 for 569 accrued compensatory hours. While the county was legally bound to make said payments to the former office manager, the accrual of 569 hours of compensatory leave was in violation of state statute. Because the former office manager accrued the majority of this vacation and compensatory time prior to the signing of the executive order, the county was in violation of its own policies and procedures ordinance.

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

***Financial Statement Findings (Continued)***

**2015-006 McCracken County's Failure To Comply With Its Own Policies And Procedures And State Statute Resulted In Significant Payroll Liabilities (Continued)**

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According to KRS 337.285(5)(a), upon request of the county or city employee, and as provided in subsection (4) of this section, compensatory time shall be awarded as follows:

1. A county or city employee who provided work in excess of forty (40) hours in a public safety activity, an emergency response activity, or a seasonal activity as described in 29 C.F.R. sec. 553.24, may accrue not more than four hundred eighty (480) hours of compensatory time; or
2. A county or city employee engaged in other work in excess of forty (40) hours, may accrue not more than two hundred forty (240) hours of compensatory time.

We recommend the county establish policies regarding the accumulation of vacation and compensatory leave balances. Such policies should be in writing, communicated to all employees, and in compliance with state statute. Furthermore, we recommend the county abide by such policies in order to avoid this type of situation in the future.

*County Judge/Executive Bob Leeper's Response: Corrective action taken.*

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit**

**2015-007 The Fiscal Court Failed To Implement Adequate Internal Controls Over Subrecipient Monitoring**

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*Federal Program:* CFDA 14.228 – Community Development Block Grant – State's Program

*Award Number and Year:* 13-015/2013

*Name of Federal Agency and Pass-Through Agency:* US Department of Housing and Urban Development – Department For Local Government

*Compliance Requirements:* Subrecipient Monitoring

*Type of Finding:* Material Weakness

*Amount of Questioned Costs:* None

The Fiscal Court failed to properly monitor or establish internal controls over monitoring for the Community Development Block Grant subrecipient and participating party activities.

OMB A-133 Subpart D §\_\_\_\_.400 requires grant recipients to “Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

The Fiscal Court contracted with the Purchase Area Development District (PADD) to act as grant administrator. PADD performed some monitoring activities for the Fiscal Court. The Fiscal Court placed complete reliance upon PADD and had no internal controls in place to determine if the subrecipient, Greater Paducah Economic Development (GPEDC), was in compliance with applicable laws, regulations, and provisions of the grant agreement.

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)**

2015-007 The Fiscal Court Failed To Implement Adequate Internal Controls Over Subrecipient Monitoring  
 (Continued)

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As a result of the internal control deficiency, the following noncompliances were noted during testing:

- A company, the Participating Party, has not fulfilled lease payment requirements as per Exhibit B-1 Article 1.c. of grant agreement 13-015.
- Original bid documents were destroyed; therefore, they were unavailable to the County as required by Exhibit B-1 Article 6 of grant agreement 13-015.
- GPEDC did not follow the guidelines for financial and compliance audits of federally assisted programs which are OMB Circular A-133 as per the Subrecipient Agreement.
- Subrecipient agreement did not contain all the information required by OMB A-133/CFR 200.
- GPEDC has not created a revolving loan fund, in which it is to account for lease payments.

The Fiscal Court should implement internal controls over subrecipient monitoring to determine if subrecipients are in compliance with applicable laws, regulations, and provisions of contracts or grant agreements. The Fiscal Court should implement procedures that identify what compliance issues it is responsible for and also implement procedures to determine that all compliance areas are properly monitored by the grant administrator. The Fiscal Court will be responsible for issuing a management decision on the subrecipient audit findings within six months after receipt of the subrecipient's audit report and should ensure that subrecipients took appropriate and timely corrective action on all audit findings.

*County Judge/Executive Bob Leeper's Response: Corrective action taken.*

**Section IV: Summary Schedule of Prior Audit Findings (FEDERAL FINDINGS ONLY)**

None.

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MCCRACKEN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2015**





CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
MCCRACKEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The McCracken County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

